CHRISTI CRADDICK, Chairman
DAVID PORTER, Commissioner
RYAN SITTON, Commissioner

RAILROAD COMMISSION OF TEXAS
Oversight and Safety Division
Market Oversight Section

January 26, 2015

Natural Gas Trends

Highlights

Texas exports to Mexico rise, LNG displaced

Increased US exports to Mexico, largely through the newly commissioned 2.1 Bcf/d NET Mexico pipeline, are being driven by unseasonably cool weather in northeastern Mexico, but may also be displacing LNG imports out of the country. Texas exports to Mexico have averaged 1.6 Bcf/d in January, a 350 MMcf/d build over last year. The increased flows are primarily because of new Tennessee Gas Pipeline and Natural Gas Pipeline Co. of America deliveries to the NET Mexico pipeline. Tennessee began delivering gas to NET Mexico January 1 and flows have risen to 220 MMcf/d over the last seven days. NGPL began delivering to NET Mexico January 13 and flows have averaged 135 MMcf/d over the last seven days. Additional exports, not captured in Bentek's sample, may be occurring along intrastate deliveries to NET Mexico, putting high-side risk on the total amount of Texas exports to Mexico.

Broadly speaking, Bentek expects flows to ramp up rapidly along NET Mexico in 2015, with eventual displacement of LNG imports out of the Altamira and Manzanillo LNG import terminals being the single largest driving factor. Temperatures and power demand may be partly responsible for the build in January exports. In Monterrey, the capital of Nuevo Leon in northeastern Mexico and the third-largest metropolitan area in Mexico, temperatures have averaged 49 degrees in January, nine degrees below last year. The increased heating, power, and industrial load is likely driving some of the record January exports. Also, new power generation capacity may be coming online in the northeastern portion of the country. Bentek estimates that 970 MW (~170 MMcf/d gas-equivalent) of new gas power generating capacity will be built in northeastern Mexico in 2015, but this will likely be commissioned later in the year.

Falling LNG imports are another important factor. LNG imports to Mexico have averaged 384 MMcf/d so far in January, putting imports at 394 MMcf/d deficit to last year and a 127 MMcf/d deficit to the five-year average.

Altamira cargoes cut in half

The Altamira import terminal, which partially serves northeastern industrial and power load would likely be the first LNG supply displaced by additional pipeline imports from the US. LNG imports at Altamira have averaged 213 MMcf/d, a 197 MMcf/d drop from last year. Only two cargoes are expected to be delivered in January, compared with four last year.

The largest contributor to the year-on-year LNG import drop is the Manzanillo terminal on the country's Pacific Coast, which primarily serves the Guadalajara and Mexico City markets. Deliveries to Manzanillo are expected to total two cargoes in January compared with five cargoes last January. However, with Mexico City temperatures trending in line with average levels and Mexico City still supply-constrained, the dropoff in deliveries is quite anomalous and not likely related to rising pipeline imports from the US. Bentek does not believe that Manzanillo LNG imports will eventually be displaced with the completion of the Los Ramones Phase II pipeline project at the end of 2015. Upon completion, that project will deliver US gas directly into Mexico City, so the recent increase in Texas exports is unlikely a result of demand surrounding Mexico City. Instead, the 213 MMcf/d drop in Altamira LNG imports would likely be associated with the current increase in exports from the US.

Looking forward, Bentek expects that much of the growth in US exports to Mexico over the next two years will be driven by US pipeline exports displacing LNG out of the Mexican market. Bentek expects 2015 Mexican LNG imports to fall nearly 25% with the start of Los Ramones Phase I and to fall by another 31% in 2016, which will make way for an estimated 500 MMcf/d of additional US pipeline imports over the next two years.

At the US level, Bentek expects that total gas exports to Mexico will grow by 650 MMcf/d in 2015 and by over 1.1 Bcf/d in 2016.

Source: Platts Gas Daily

Data

- February 2015 Natural Gas Futures Contract (as of January 23), NYMEX at Henry Hub closed at $2.986 per million British thermal units (MMBtu)
- February 2015 Light, Sweet Crude Oil Futures Contract WTI (as of January 23), closed at $45.59 per U.S. oil barrel (Bbl.) or approximately $7.86 per MMBtu

Last week: Texas colder than normal

For the week beginning 1/18/15 and ending 1/24/15, heating degree days (HDD) were higher than normal (colder) for the week and for the year to date for most Texas cities shown.

Source: www.cpc.ncep.noaa.gov

HEATING DEGREE DAYS (HDD)

City or Region	Total HDD for week ending 1/24/15	*Week HDD + / - from normal	Year-to-date total HDD	* YTD % +/- from normal
Amarillo	191	-18	2312	-7%
Austin	111	5	1208	19%
DFW	108	-39	1431	-1%
El Paso	140	-1	1391	-13%
Houston	79	-19	919	-1%
SAT	83	-20	934	-5%
Texas**	101	-19	1252	3%
U.S.**	169	-39	2334	-5%

-999 = Normal Less Than 100 or Ratio Incalculable

* A minus (-) value is warmer than normal; a plus (+) value is cooler than normal. NOAA uses 65° Fahrenheit as the 'normal' basis from which HDDs are calculated.
** State and U.S. degree days are population-weighted by NOAA.

Last week: U.S. natural gas storage at 2,637 Bcf

For the week ending 1/16/2015 working gas in storage decreased from 2,853 Bcf to 2,637 Bcf. This represents a decrease of 216 Bcf from the previous week. Stocks were 199 Bcf higher than last year at this time and 153 Bcf below the 5 year average of 2,966 Bcf.

Source: http://ir.eia.gov/ngs/ngs.html

U.S. WORKING GAS IN STORAGE

Region	Week ending 1/16/15	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,350	1,468	-118	-5.3%
West	384	400	-16	-1.8%
Producing	903	985	-82	-7.4%
Lower 48 Total	2,637	2,853	-216	-5.5%

Lower 48 states, underground storage, units in billion cubic feet (Bcf)

Last week: U.S. gas rig count up for the week

The gas rig count for the U.S. was up six for the week and down 40 when compared to twelve months ago. The total rig count for the U.S. was down 43 from last week and down 144 when compared to twelve months ago. The total rig count includes both oil and natural gas rotary rigs.

Source: Baker Hughes

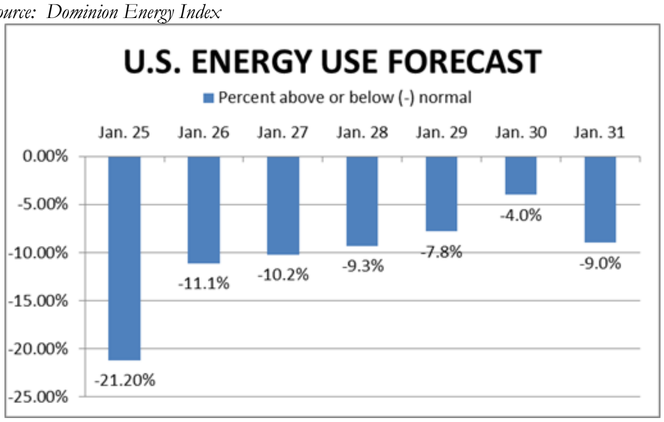
BAKER HUGHES ROTARY RIG COUNT

	As of 1/23/2015	+/- prior week	Year ago	+/- year ago
Texas	753	-13	839	-86
U.S. gas	316	6	356	-40
U.S. oil	1317	-49	1416	-99
U.S. total	1633	-43	1777	-144
Canada	432	-8	590	-158

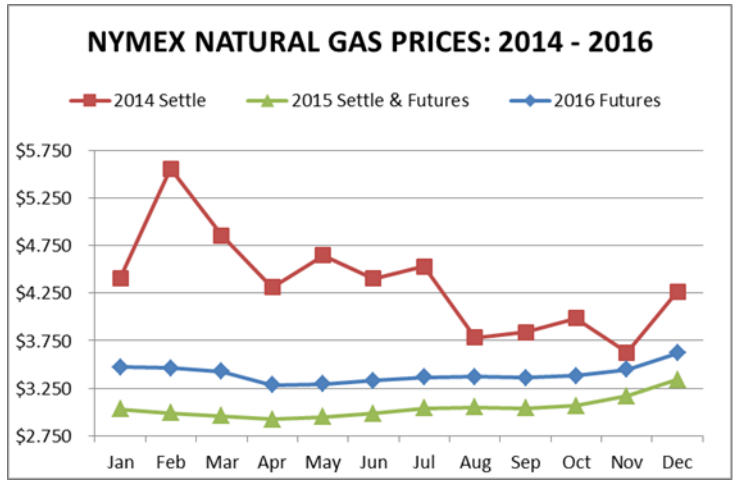
This week: U.S. energy use below normal

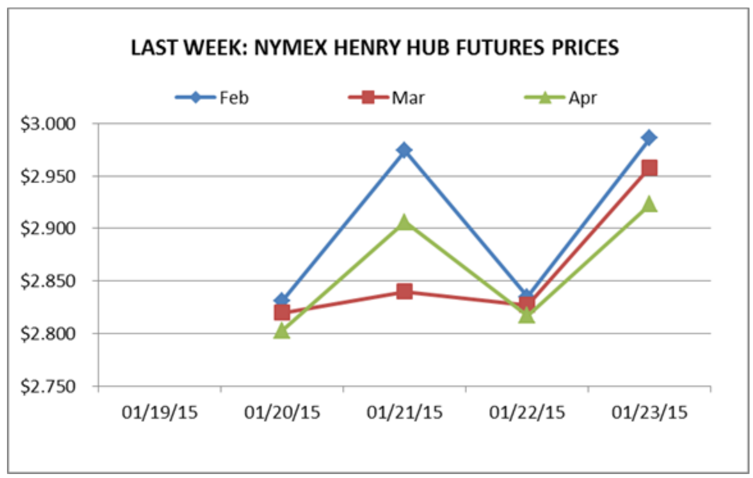
U.S. energy use is predicted to be below normal this week, according to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index



2015 prices. Natural gas prices for 2015, shown below in green, are the NYMEX settlement prices for Jan. and futures prices for the remainder of the year.





*There is no data available for January 19 due to the Martin Luther King, Jr. holiday.

NATURAL GAS PRICE SUMMARY AS OF 1/23/2015

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US Feb. futures				
NYMEX	$2.986	-$0.141	-$1.869	$3.044